ISSN 0970-7247

Rs. 20.00
JUNE 2014

THIRD CONCEPT

328

Annual Subscription Rs. 200

An International Journal of Ideas

- India & UN Security Council
- Environment & Human Rights
- Women and Political Participation
- Social Exclusion &Transgenders
- Elder Abuse
- Conflict & Development

Recalibrating Economy

Recent years have witnessed India's economic growth falling into a tailspin. According to some experts, factors like bureaucratic gridlock, internal party bickering and renegade ministers of the outgoing government were responsible for dragging the economy down. Another binding constraint to economic growth was dysfunctional decision-making in Delhi. For bulk part of the past year, growth rate continued to languish below 5 per cent and retail inflation averaged about 10 per cent during the same period. According to one expert, the global economic climate has turned far more adverse since the financial crisis of 2008, which has long-term implications for India and to which the policy makers of the preceding regime failed to respond in a more concrete manner. The predecessor government made numerous strategic errors that alarmingly contributed to economic mess. Some experts feel that the outgoing government "hubristically misread the economic boom to assume that India can continue to grow rapidly on autopilot." The policy paralysis even rendered the efforts of the Reserve Bank of India futile whenever it tried to cool down an overheated economy.

The massive revenue garnered by the government during the boom period was expended on all kinds of spending plans without any strategic and rational planning and subsequently the same dispensation was found struggling to find ways to fund those plans. According to broad estimates, the cumulative spending on subsidies since 2004 had accumulated to the tune of Rs.12 trillion by the closing pat of 2013. Undoubtedly demand was stimulated; nevertheless, a string of policy errors choked supplies. Under such circumstances, it was but natural that the excess domestic demand fed inflation as well as spilled over into the trade account.

Despite the decline in the burden of public debt, India still has by far the highest fiscal deficit among the major global economies. India has clearly emerged as a laggard and it continues to report a large primary deficit. Some experts hold fiscal profligacy responsible for giving rise to many economic problems in the country. The prevalent economic problems are not just attributable to a collapse of economic strategy but the usual outcome of the policy paralysis that afflicted the preceding regime, with its deep suspicion of economic reforms, a lax attitude towards spending commitments and a clear preference for subsidies rather than public investment. The new incumbent dispensation has heightened the expectations and aspirations of the people, especially the youth which is restless and expects quick transposition of those aspirations. Market forces along with investors are somewhat ebullient about the economy's prospects. The new dispensation has yet to manifest any precise strategic plans to tackle India's three major growth constraints: persistent food price inflation, the deep financial distress of most infrastructure companies, and lack of jobs for young people entering the workforce. Merely quick decision making seldom yields good results unless it is backed by right strategy.

There is no denying the fact that the new dispensation inherits a sluggish economy, persistently high inflation, an investment collapse and a public finance mess. The country has been pushed into this quandary because of faulty policies. The way out of this messy situation calls for a new political vision rather than replication of the old one. Many experts feel that the economic strategy that draws from such a new political vision should focus on attacking inflation, bringing the investment cycle back on track, cutting subsidies and getting serious about economic reforms. The key is not demand management but more asset creation. In other words, India needs supply-side economics. The recently released UN World Economic Situation and Prospects (WESP) 2014 mid-year update says India's economy would grow by 5 per cent in 2014 and 5.5 per cent in 2015, only slightly up from 4.8 per cent in 2013 and 4.7 per cent in 2012. The World Bank has projected an economic growth rate of 5.7 per cent in fiscal year 2014 for India, while IMF has pegged the growth forecast at 5.4 per cent in 2014 for the country. In the wake of these reports, it is safe to assume that new dispensation is confronted with Herculean task of infusing a fresh vitality into an ailing economy and it holds a key to its future success or failure. Economic buoyancy can be its talisman.

—BK

THIRD CONCEPT

An International Journal of Ideas

Vol. 28 No. 328 JUNE 2014 Rs. 20. 00

Editor

BABUDDIN KHAN

THIRD CONCEPT aims at providing a platform where a meaningful exchange of ideas can take place among the people of the Third World. The attempt will be to communicate, debate and disseminate information, ideas and alternatives for the resolution of the common problems facing humankind. We welcome contributions from academics, journalists and even from those who may never have published anything before. The only requirement is a concern for and desire to understand and take the issue of our time. Contributions may be descriptive, analytical or theoretical. They may be in the form of original articles, reactions to previous contributions, or even a comment on a prevailing situation. All contributions, neatly typed in double space, may be addressed to:

THIRD CONCEPT
LB - 39, Prakash Deep Building,
7, Tolstoy Marg, New Delhi-110 001.
Phones : 23711092, 23712249
Fax No: 23711092.
E-mail : third.concept@rediffmail.com
Website: www.thirdconceptjournal.co.in

Designed by: **Pt. Tejpal**

INSIDE